

FDIC State Profile

SUMMER 2003

Maine

The recent 2001 national recession largely bypassed Maine's economy, but signs of weakness are emerging.

- Economic weakness continued to weigh on Maine labor markets in early 2003. Maine's unemployment rate remained one of New England's lowest as of March, but payrolls had declined slightly from the prior year. Given Maine's limited exposure to high-tech and equity markets, the state has lost a small percentage of jobs compared to other states in the Region (see Chart 1).
- The Maine economy is more reliant on health care and education than most New England states, two sectors that remained relatively strong throughout the recession. As such, Maine has been insulated from the wide swings in personal income associated with the recent boom/bust in IT and equity markets, and reported the largest per capita income increase in New England during 2002.
- However, continued dependence on manufacturing industries such as leather, paper, and textiles is likely to hamper economic and income growth in Maine once the economy begins to recover.

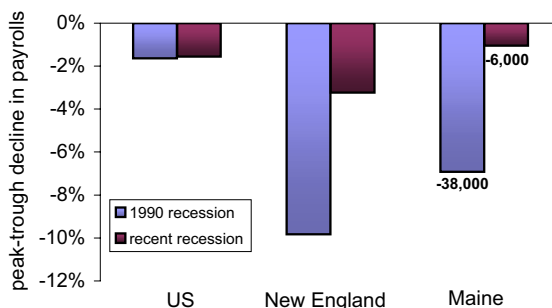
Policy measures enacted to correct for fiscal imbalances could pressure state and local economic conditions.

- Maine's personal income tax revenues declined following the recession, primarily as a result of reduced capital gains income (see Chart 2). Maine's tax collections have held up better than most New England states and showed modest growth towards year-end 2002; however, the state budget remains unbalanced for the upcoming fiscal year.
- Policy actions will be implemented to close the remaining \$48 million budget gap for fiscal year 2004, including cuts in local aid. As Maine is more dependent on government employment than the nation, state or local layoffs could worsen the employment situation and impede the economic recovery.

Despite slower activity, housing markets remain a growth engine in Maine.

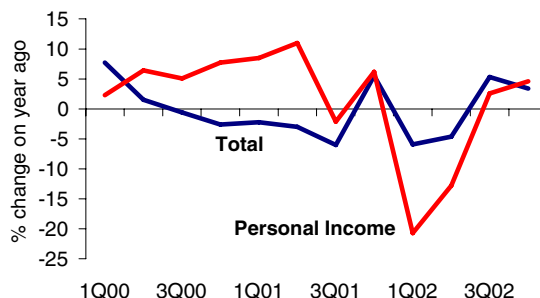
- Maine's single-family home sales ended 2002 higher than the previous year, but activity slowed in the second half of the year. While still rising at a double digit pace, the state's rate of home price appreciation seems to have stabilized. (see Chart 3).

Chart 1: Decline in Maine Employment Levels Less Than New England and the Nation



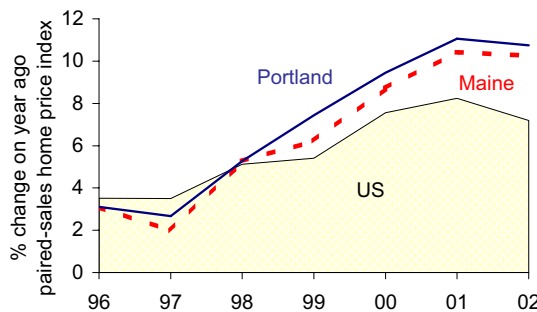
Source: BLS, Recent jobs lost from January 2001 through February 2003

Chart 2: State Tax Revenues Fell During the Downturn, Followed by Sluggish Growth in Late 2002



Source: Rockefeller Institute, Data through fourth quarter 2002.

Chart 3: Home Price Appreciation Continues in Maine, Supported by Strong Demand in Southern Areas



Source: OFHEO

State Profile

- Though relatively unscathed by the recent national recession, only housing seems likely to provide strong support for Maine's economic growth over the near term.

Maine's insured institutions continued to be profitable despite some pressure on net interest margins.

- Maine's commercial banks reported a median return on assets (ROA) of 1.11 percent as of December 31, 2002, up 9 basis points from year-end 2001. Profitability has been boosted from increases in noninterest income and net interest income as interest expenses continued to decline. The state's savings institutions posted a median 0.76 percent ROA at year-end 2002, up from 0.61 percent at year-end 2001. Although the savings institutions enjoyed strong increases in net interest income, low levels of noninterest income, rising expenses, and security losses suppressed earnings in 2002.
- The median net interest margin in the state's commercial institutions fell again in 2002 following five years of steady decline. The savings institutions, on the other hand, have seen net interest margins increasing over the last three years (see Chart 4).
- Overhead expenses continue to hamper the state's savings institutions as the median ratio of noninterest expenses to average assets has increased over the last two years to 2.90 percent as of year-end 2002. Salaries continue to contribute the most to the increases in overhead expenses. Overhead in the state's commercial institutions declined in 2002 and the median ratio of noninterest expenses to average assets was 3.19 percent as of December 31, 2002. Although salaries increased in the commercial institutions, other expenses declined sharply improving the bottom line.
- While loan-loss provisions remain low, should the economy suffer another downturn with a deterioration in credit quality, profitability may be affected.

Interest-Rate Risk remains a concern for Maine institutions with increased concentrations of fixed-rate, long-term assets, resulting from the recent refinancing waves.

- The conventional 30-year mortgage rate has declined significantly over the past several years and has been below 6 percent since September 2002. Refinancing activity has remained strong through the end of 2002 and will likely continue to be strong as borrowers lock in long-term, fixed-rate loans at lower rates. According to the Mortgage Bankers Association, 85

Chart 4: Commercial Institutions in Maine Experiencing Declining Margins

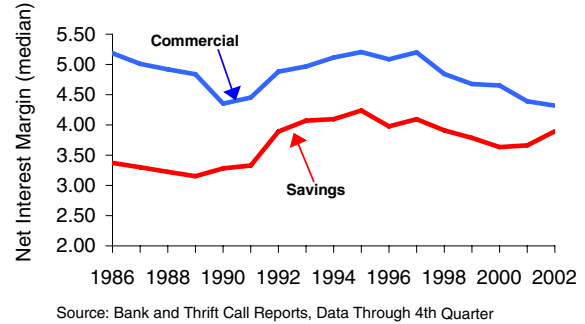
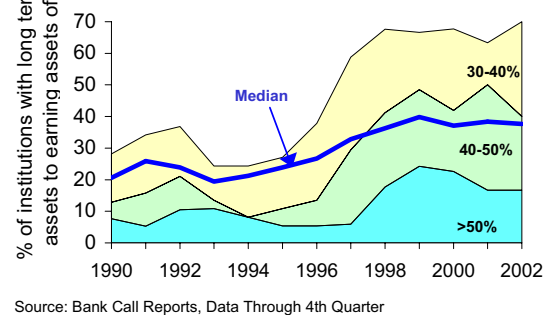


Chart 5: Long Term Asset Concentrations Have Risen In Many Institutions in Maine, Suggesting Increased Exposure to Interest Rate Risk



percent of the refinancing activity completed in 2002 was into fixed-rate products.

- During the past year, asset maturities have lengthened at some institutions without matching extension of liabilities. Median long-term assets represented a high 38 percent of earning assets at the end of 2002. About 40 percent of Maine's insured institutions had long-term asset concentrations greater than 40 percent as of year-end 2002 (see Chart 5).
- The extension of asset maturities is especially pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 62 percent of insured institutions in Maine, and residential real estate loans comprise roughly 55 percent of the average loan portfolio in those institutions. If interest rates rise during an economic recovery, institutions with large concentrations of fixed-rate assets could face margin compression.

Maine at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	39	39	41	44	45
Total Assets (in thousands)	36,140,507	16,322,148	15,050,169	16,234,862	15,392,414
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	1	1	2	3	4
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.78	8.83	9.13	9.27	9.28
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.52%	1.90%	2.05%	1.62%	2.04%
Past-Due and Nonaccrual >= 5%	6	1	2	1	6
ALLL/Total Loans (median %)	1.19%	1.17%	1.12%	1.17%	1.21%
ALLL/Noncurrent Loans (median multiple)	1.69	1.61	1.50	1.74	1.45
Net Loan Losses/Loans (aggregate)	0.24%	0.23%	0.24%	0.20%	0.22%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	1	0	0	0	0
Percent Unprofitable	2.56%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	0.82	0.76	0.92	0.93	1.01
25th Percentile	0.66	0.49	0.62	0.67	0.68
Net Interest Margin (median %)	4.09%	3.90%	4.06%	4.02%	4.08%
Yield on Earning Assets (median)	6.70%	7.75%	8.14%	7.78%	8.07%
Cost of Funding Earning Assets (median)	2.67%	3.79%	4.17%	3.75%	3.99%
Provisions to Avg. Assets (median)	0.14%	0.21%	0.16%	0.14%	0.14%
Noninterest Income to Avg. Assets (median)	0.66%	0.63%	0.57%	0.60%	0.56%
Overhead to Avg. Assets (median)	3.04%	3.23%	3.01%	3.14%	3.12%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	92.40%	94.11%	94.14%	92.86%	87.56%
Loans to Assets (median %)	70.04%	71.11%	70.91%	70.05%	70.70%
Brokered Deposits (# of Institutions)	10	10	7	9	9
Bro. Deps./Assets (median for above inst.)	3.79%	1.89%	3.54%	2.56%	2.63%
Noncore Funding to Assets (median)	22.49%	21.79%	21.67%	18.53%	15.85%
Core Funding to Assets (median)	66.75%	66.91%	67.77%	70.37%	72.95%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	7	7	7	8	9
National	6	6	6	5	5
State Member	2	2	2	3	3
S&L	7	7	7	7	7
Savings Bank	2	2	3	4	4
Mutually Insured	15	15	16	17	17
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	29	9,088,904	74.36%	25.15%	
Portland ME	4	24,188,589	10.26%	66.93%	
Lewiston-Auburn ME	4	1,159,562	10.26%	3.21%	
Bangor ME	2	1,703,452	5.13%	4.71%	